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# FOREIGN POLICY bulletin

AN ANALYSIS OF CURRENT INTERNATIONAL EVENTS

VOLUME XXXI NUMBER 3

## The UN's Two Tests

The six harried years of the United Nations have been marked by an unprecedented development in one sideline of the diplomatic craft—stocktaking.

Nowadays the stocktaking has something startled about it because the UN's friends and enemies are not quite sure what the organization has become.

For the world this has been the year of almost-total-war. For the United Nations as an organization this has been the year of sudden growth, change, the molding of the Charter into something not foreseen at San Francisco, the year of the test of collective security, the year of preparations for new tests.

The majority of the men and women who work for the United Nations still labor on projects—economic, social and technical—aimed at a future and better day. The fact, however, is that the United Nations' 1950-51 calendar has just two essential decisions that will determine whether the work of all those anonymous secretariat specialists ever has any meaning: June 27, 1950, the day the Security Council committed the United Nations to the aid of the Republic of Korea; and November 2, 1950, the day that the General

Assembly adopted the Acheson plan for collective security.

On June 27, for better or disaster, the United Nations discarded the double standard for aggression written into the Charter. The power of the veto accepted at San Francisco was, in those long-ago days of 1945, the plain expression of what was taken for granted—that the United Nations could exist meaningfully only by consent of the Big Five and that it could never take action against any of the major powers and survive. It is true, of course, that the June 27 decision did not mention the Soviet Union or even Communist China and that the delegates who voted "yes" then hoped—and still do most fervently—that they would never have to give an armed answer as to who was playing Jacob to the North Korean Esau.

But it is just as true that the delegates and the countries they represented knew that they were putting the organization of the United Nations into battle against an arm of the Soviet Union. That is the pivotal significance of June 27. It was an historical accident that the Soviet Union was not present to invoke the veto that would have blocked the action. If Jacob Malik, Russia's

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delegate, had been present, another way would have been found by the United States to make sure that the commitment in Korea would be international, not just American. The Soviet Union has not elected to say to the United Nations: "You chose war against us." The fact remains that in the late afternoon of June 27 the United Nations voted to resist by force of arms an action that the majority of its members had no doubt was ordered in Moscow. From that moment on, the UN could not be the same.

### Acheson Plan

The formalization of the change in the United Nations came in the plan for preparedness against aggression put before the General Assembly by Dean Acheson and adopted under the innocuous title of "Uniting for Peace." There were two basic purposes behind the introduction of the resolution. The first was to make sure that in case the Soviet Union tried a "double play"—a military adventure coupled with a veto in the Security Council to prevent measures against it—the General Assembly would be ready to substitute for the Council. The second was to start planning and organizing now for action, military, political and economic, against future aggression.

The Acheson plan gave the Assembly the power to move into an emergency situation on 24 hours notice when the Council failed to take action. It thus made the Assembly not only the judge of the Council but gave it the right to supersede the Council in the most vital sphere of

United Nations affairs—action to maintain the peace.

The members of the United Nations, under the Acheson plan, are supposed to train and equip military units earmarked especially for United Nations service. When the plan was put forward the idea seemed to have been to do some advance training and planning so that the UN would not have to scrounge around for an army in time of emergency and could save valuable time. It has not worked out that way. A pitifully few countries have said that a battalion or so of the national forces would be earmarked. Most countries have said they were too weak, had too many commitments, but would think about it. And the major Western powers—Britain, France and the United States—have soberly told the United Nations that all their forces were at the disposal of the UN in a manner of speaking, and wouldn't it be rather futile in that case to designate this or that unit as "earmarked"?

Perhaps so, but there are some at the United Nations who suspect that between the time the Acheson plan was presented and the time the United States got around to answering the question on earmarking, two important things had shaped the replies: our congressional debate about the powers of the President to commit United States troops to action, and the MacArthur controversy. For the present, the original concept of a United Nations reserve of known size and strength is on the shelf. But despite the slow leak in the earmarking provision of the Acheson plan,

it has clearly changed the United Nations. Non-Communist opponents of the Acheson plan are afraid that it represents a tendency to play fast and loose with the letter and intent of the Charter, that what it amounts to is backdoor amendment of the document so solemnly signed at San Francisco. To them, the Acheson plan is a change in the operating structure of the United Nations, one which may make the Soviet Union decide that the UN is no longer worth staying in.

This is something that the supporters of the plan do not concede. Their argument runs roughly as follows: The United Nations has two principal functions in the field of peace—to use every mediatory tool to prevent hostilities and at the same time make sure it is prepared to repel aggression. All the Acheson plan did, they say, was to speed up the rate of growth of the UN's powers to act against aggression. They see nothing incompatible between the determination of the United Nations to do everything possible to protect itself and its determination to do everything possible toward peaceful settlements. And they say, too, that the United Nations cannot hamstring its logical growth for fear of a Soviet walkout, that the Russians will stay in as long as it benefits them—and that they are much more likely to stay in a strong international organization than in a weak one.

A. M. ROSENTHAL

(A. M. Rosenthal has covered United Nations activities for *The New York Times* since 1946 and is the author of numerous articles for *The Saturday Evening Post*, *Collier's* and other magazines.)

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## Will U. S. Trade Ban Move Czechs?

WASHINGTON—As a device for inducing countries in the Soviet orbit to change their foreign policies, United States restrictions on trade with those countries have proved disappointing. Despite the gradual reduction since 1947 of the number of items which the Department of Commerce licenses for export to the Soviet area, the U.S.S.R. continues to antagonize the United States.

The total embargo imposed last spring on trade with Communist China has failed to soften relations between Peiping and Washington. The ineffectiveness of economic sanctions as a prod to reform deserves notice now because of the widespread belief that, by cutting off trade with Czechoslovakia, the United States might persuade the Prague government to liberate William N. Oatis from prison.

Oatis, an American national and a correspondent for the Associated Press, was sentenced on July 4 by the Czechoslovak State Court to serve 10 years for alleged espionage. Condemnation of the accusation, trial and sentence by President Truman and many members of Congress as a "travesty of justice" has not caused the Czech government to reverse the court decision. The Czechs' indifference to such criticism has strengthened the demand here for trade reprisals.

### Ineffective Restrictions

The weakness of trade restriction is that it does not impose new hardships on the countries of Eastern Europe. Under the present policy of the Soviet Union and its neighbors, Western Europe depends more on the goods of the East than the East

depends on the West. Moscow encourages its neighbors to trade among themselves and to seek self-sufficiency as a group. Czech economic difficulties, recently manifested by cabinet changes in Prague, are believed due to domestic policies adopted before as well as since the Communist coup of 1948, rather than to new foreign trade problems.

Meanwhile, Czechoslovakia and its neighbors have been expanding their economies. According to a report of the Economic Commission for Europe, Czech industrial production has increased, in terms of index numbers, from 110 in 1948 to 147 in 1950. Employment in Czechoslovakia rose from 104 in 1948 to 117 in 1950. The cattle population rose from 3,663,000 head in 1948-1949 to 4,100,000 in 1950-1951.

These increases occurred while Czechoslovakia and other Eastern European countries linked to Moscow were making fewer purchases in the West. Exports of the United States and Canada to Czechoslovakia, Bulgaria, the Soviet zone of Germany, Hungary, Poland, Rumania, the U.S.S.R. and Yugoslavia amounted to \$53 million in the first half of 1949 and \$41 million in the second half of 1950. In that period American export trade with one of those countries, Yugoslavia, was growing.

While exports to Eastern Europe fell, North American imports from Eastern Europe increased, from \$44 million in the first half of 1949 to \$52 million in the second half of 1950. The United States attempted to punish Czechoslovakia with a form of economic sanction in 1946, when Washington withdrew a cotton credit from Prague. This action

had no visible effect on Czech political policies.

In spite of that unpromising history, the Department of Commerce has ceased to grant licenses for any shipments to Czechoslovakia. President Truman on October 2 instructed the Treasury Department that after November 1 tariff concessions on goods coming from Czechoslovakia would be suspended. The latter action was almost mandatory by the terms of the Trade Agreements Act of 1951, which directs the Administration to suspend concessions to countries governed by Communists friendly to the Soviet Union. The President has yet to suspend concessions to the Soviet Union, Poland and Hungary, but these suspensions are expected in time.

### Problem to Free Oatis

The Czech suspension was made possible by a vote of members of the General Agreement on Tariffs and Trade authorizing the action. The United States argued to the GATT signatories that Czechoslovakia had invalidated the General Agreement by confiscating American property and imprisoning American citizens "without justification." The embargo of exports to Czechoslovakia and the end of concessions brings the United States close to a total interruption of commerce with the Soviet areas.

Whether this policy will induce the Czechs to free Oatis is questionable. In spite of discouragement, however, a continuing show of concern for Oatis is important evidence of American interest in the fate of individual human beings.

BLAIR BOLLES



## Point Four: Public or Private Aid?

by Seymour E. Harris

Dr. Harris argues that private aid would be inefficient and insufficient and that large-scale public aid is essential for the success of Point Four. Dr. Harris, Professor of Economics at Harvard University, is the author of many books, the most recent of which is *Economics of Mobilization and Inflation* (New York, Norton, 1951).

**P**RIOR to World War II, private interests financed underdeveloped areas in so far as they were financed at all. Now the emphasis is increasingly on public aid. Why?

One important reason is mounting dissatisfaction with the results of private lending. What are these results? Too much outside control of strategic industries. Development of the wrong kinds of industries (for example, those that exhaust natural resources all too swiftly), not those that provide the foundation for a well-balanced economy (for example, education, health, water development, improved roads, manufacturing). Burdensome terms inclusive of high rates of interest, large amortization payments, heavy outward drains, with resulting pressure on exchanges. Unfavorable terms of trade, that is, low prices for exports relative to import prices, because of the kinds of development undertaken.

A second reason is traceable to the new difficulties confronting private lenders. They are embarrassed, as they generally were not before 1929, by exchange controls. They know that they are likely to be the first victims should a turn in the balance of payments jeopardize the reserve position of the foreign country. Because of these problems, they are unwilling to make loans or else they seek government guarantees against restrictions on payments. Hence American bankers (speaking on behalf of the International Chamber of Commerce) demand "an unequivocal statement on the part of the

United States government that it does not intend to supply, and in fact cannot supply, foreign countries with the technology and capital which they require to develop their resources and skills; that it looks primarily to private enterprise." But, they continue, private enterprise must have public guarantees or public insurance of investments risks, and the government is to provide markets and hence the source of financing the loans through long-term contracts for the purchase of strategic raw materials. Is the government to buy part of the chips but to allow private investors to cash in on them?

### Inadequacy of Private Funds

Even if private investors were ready to assume the risks involved, as they are not, the question arises whether or not they have adequate funds. A survey of the Food and Agriculture Organization suggested that in four years the underdeveloped regions required \$37.6 billion in 1947-48 dollars, of which amount \$15.5 billion would come from abroad.

Yet in 1914 the foreign investments of all countries amounted to \$44 billion, and by 1929 the losses of the war period had been recouped. In the 30's, creditor countries withdrew capital. And in the five years since World War II exports of private capital from the United States (primarily petroleum investments) amounted to little more than 10 per cent of United States government assistance of \$26 billion.

This array of statistics simply

shows that the United States, the creditor nation of the world, has not privately provided the poorer countries with resources commensurate with its responsibilities. In the 30's, the richest country in the world imported rather than exported capital; and in the last few years our private capital exports averaged about \$600 million a year, or about 1/4 of 1 per cent of our gross national product. Our accumulated \$18-19 billion of private investment abroad in 1950, when compared with the \$40 billion invested abroad in 1914 by the rest of the world, represents roughly 1/5-1/10 as much relative to our income as the relative advances made by other creditor nations by 1914; and perhaps 1/10-1/15 as compared with Britain.

What is worthy of special emphasis here is that the case for public intervention is not only that private enterprise has *not* done an adequate job; but also that private investors *could not* do an adequate job.

Today issues are entirely different than before 1939. Now the assistance is given because we want to offer hopes to the more than one billion people in underdeveloped and *non-Communist* areas whose average income is roughly \$80 per year. A wise and adequate policy could increase per capita incomes in *all* underdeveloped areas from \$50 in 1950 to \$140 by the year 2000; and this despite a rise of population by 50 per cent.

Note that the gains accrue to all of us—not to the lenders merely—and especially in savings on armament and war. Hence the govern-

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**by August Maffry**

Mr. Maffry contends that private aid would prove both more extensive and more effective than public aid. He is vice-president of the Irving Trust Co., N. Y. and chairman of the Committee on Foreign Investment and Economic Development of the U.S. Council of the International Chamber of Commerce.

**T**HE question under discussion should be rephrased. The issue is the desirable form of assistance by the United States to underdeveloped countries under the Point Four concept. Given the economic and political imperatives of the present international situation, it must be agreed in advance that both public, that is, government, and private, that is, business, aid are needed if the economic development of friendly foreign countries is to proceed at an acceptable pace.

The proponents of government aid to foreign countries are prone to stress the timidity of private investors and the small amount of current investment abroad by American investors other than the major oil companies. They often fail to contemplate the vast resources of private capital that might be induced to go abroad if conditions of investment were more attractive in terms of safety and return after taxes. They also frequently exaggerate the assurances required by private investors as a condition of putting their capital into underdeveloped countries. Private investors ask only for fair and nondiscriminatory treatment.

The advocates of large-scale government aid to underdeveloped countries. Private investors ask only for the great and growing difficulty of getting public funds for assisting the economic development of foreign countries. It is hardly conceivable that American public funds will be available in anything like the amounts required to give important impetus to the economic develop-

ment of the three-score of countries outside the Soviet sphere of influence and friendly to the United States. It is even less conceivable that public capital will be available for all the essential fields of development. Public capital may be forthcoming for health and sanitation, education, improvement of agricultural methods, and other such fields generally conceded to be suitable for government activity. It may be forthcoming also for essential public works in the fields of transportation, water control and electric power. But it is most improbable that public capital will be available in other than closely limited amounts for the extractive and manufacturing industries to which public services and public works such as those mentioned above are mainly accessory.

### **Applied Technology**

There are, however, several more positive and even more compelling reasons for maximizing the role of private investment in economic development. Private investment, particularly corporate investment, carries with it the applied technical knowledge indispensable to industrialization. Technical assistance under government auspices in such fields as public health, education and public administration is appropriate and can be effective. In the field of industry, however, it is scarcely feasible or, if feasible, ineffective and inefficient. This is because industrial technology is for the most part privately-owned and therefore obtainable only against agreed payment and because technology alone, with-

out the trick of applying it, is not of much avail. It cannot be stressed too much or too often that private investment combines, in the most effective fashion, technical knowledge and capital, that is to say, *applied* technology.

These inherent advantages of private investment obtain even if, as has been proposed, private investment is assisted by government guarantees of certain nonbusiness risks such as inconvertibility and confiscation. Guarantees of this type are for various reasons highly controversial, however, and I know of no organized business group in the United States which advocates them as a general prescription.

The applied technology which goes along with private investment is the latter's first great advantage over public investment or over technical assistance without any accompanying investment at all. The second great advantage of private investment is that under present conditions it consists almost entirely of equity investment in return and no amortization whatsoever. Equity investment is in the nature of permanent investment which is continuously increased by the reinvestment of earnings. The whole issue is befuddled if one talks of private *loans* to foreign borrowers. There are practically no such investments these days and not likely to be any significant volume of them unless present conditions are altered. It is also confusing (and not a little unfair) to revert to the private foreign loans of the 20's and the terms on which they were made. What we are talking about, when we speak of private foreign investment today, is predominantly *equity* investments by corporations.

By contrast, the great weakness of public capital assistance to underde-

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## Harris

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ment can offer better terms than private investors: low rates of interest, long periods of amortization, assistance as well as loans; and government lending agencies can provide money for use on the basis of long-range plans for the economies involved. The difference in annual charges for a 2 per cent loan without amortization and a 7 per cent loan (the average rate on foreign loans received by the United States in the late 20's), with a 25-year amortization, is tremendous.

In many ways the ideal procedure would be loans through the United Nations agencies, for then the charge of political objectives would not be thrown back at us. But, unfortunately, the United States Congress is not likely to appropriate the minimum of 2 to 3 billion dollars annually that could be so used now, even in a globalized world, unless the

American government controls the disposal and conditions.

Private loans cannot do the job. At best, they can only be supplementary. Government alone can provide the major funds required, and government will do the better job.

## Maffry

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veloped countries is that, if on an investment basis, it must be on a loan basis. The amounts which can be invested on a loan basis are limited accordingly by the capacity of underdeveloped countries to meet fixed debt service. This weakness of public foreign investment will persist until institutions like the International Bank begin to make investments on an equity basis, as I think they should.

### Stimulus of Profit

All of what has been said above, however, misses the main point,

which is the striking contrast in performance and results between public undertakings, on the one hand, and private enterprise on the other. Both can be good and either can be bad; but there is no counterpart in public undertakings for the stimulus of profit-seeking and the test of earning its way which act as a spur and a check to private enterprise. These characteristics are responsible for the dynamism and minimum of waste in a free competitive economy. Government undertakings are by comparison typically slow in the planning stage, delayed in execution, fraught with politics if not with outright graft, generally overorganized in a bureaucratic sense, and almost invariably excessively costly. The example of the United States economy with its phenomenal record of growth under predominantly private initiative should be enough to demonstrate the inherent superiority of private enterprise in the development of economic resources.

### FOREIGN POLICY SPOTLIGHT



## European Politics in Flux

National elections in Britain, set for October 25, the cantonal elections in France of October 7 and 14, renewed discussion at Bonn about the advisability of an all-German poll on the country's reunification, and rising agitation in Italy for the return of Trieste, all forecast a reassessment of foreign as well as domestic policies in the four leading nations of Western Europe.

In Britain a Conservative victory is regarded as possible, but the most reliable prognosticators believe the elections may be close—recent opinion polls indicate that the Conservatives have been running significantly ahead of Labor in public preference.

The Labor party's position has been somewhat strengthened by the decision of Aneurin Bevan's dissident group to close ranks for the duration of the elections.

### British Election Issues

Whichever party wins, its choice of policies will be severely limited by Britain's growing economic stringency and its financial dependence on the United States. Winston Churchill, who again leads his party into political battle, has announced that the Conservatives, if victorious, will return road transport and the iron and steel industry to private owners, but will retain Labor's other

nationalization measures and will impose an excess tax on profits during the rearmament period as an alternative to the much-decried proposal of Chancellor of the Exchequer Hugh Gaitskell to freeze dividends for three years. Mr. Churchill has also intimated that, while going forward with the rearmament program, he would endeavor to negotiate with Stalin. Nor did he press his former demand for military action in Iran when the Iranian government, on September 25, ordered the ouster of British employees of the Anglo-Iranian Company. The British submitted this ouster order on September 29 to the United Nations



Security Council, where Premier Mohammed Mossadegh was to argue Iran's case. British policy toward Iran's oil nationalization, as well as American mediation in the crisis, are slated to be issues in the elections.

In France the cantonal elections were expected to give a more accurate picture of popular sentiment than the national poll of May and June, held according to a complex system which was designed to reduce the voting strength of the Gaullists and Communists. Debates in the French National Assembly have revealed a striking revival of clericalism over the issue of state aid to religious schools, spearheaded by the MRP (Mouvement Républicain Populaire). In France, where the conflict between Church and state had been regarded as definitively settled in 1903; this unexpected proclerical upsurge will, it is predicted, bring about an anticlerical alignment of moderate center parties, including the Radicals, with the Socialists and possibly even elements still further to the left. It was predicted that the cabinet of Premier René Pleven, which has experienced stormy weather in dealing with the problems of school aid and of wages, might not survive the cantonal elections.

### German Unity

The Bonn debate over reunification of Germany, precipitated by a new proposal from the Communist leaders of East Germany, has—as Moscow doubtless hoped—temporarily overshadowed plans for the integration of the West German state into Western Europe and the recruitment of German troops for the European army. While it is not expected that the East German authorities will agree to elections on the terms suggested by Bonn—complete freedom of voting under United Nations supervision—the

German Communists and the Kremlin have succeeded in appealing to the deep-seated sentiment of all Germans for the restoration of national unity. Because of the magnetic quality of this appeal, some observers regret that the United States had not seized the initiative in proposing reunification instead of taking the continued territorial division of Germany for granted. The Kremlin may follow up the East German overture by a proposal for renewal of Big Four negotiations on Germany.

A paradoxical result of the San Francisco and Ottawa conferences, which demonstrated the highest degree of solidarity on the part of the West since 1945 and glaringly revealed the isolation of the U.S.S.R., has been a tendency on the part of the North Atlantic nations to scrutinize afresh their own mutual problems, many of which will require further negotiations with Moscow. The restoration of sovereignty

to Japan, the pending contractual agreement with West Germany, Italy's request for revision of its peace treaty, have all raised a series of new issues which cut across the sharp lines of division between East and West. Moreover, the peace settlements, as agreed at the end of World War II, have been forged outside the United Nations, of which the former enemy countries are not yet members. The impression has thus been created that the most significant international decisions of our times are being reached by various groups of nations on the periphery of the UN with little or no reference to the international organization. The sixth UN General Assembly, which opens in Paris on November 6, will be closely watched for signs of the direction in which the UN will develop in a world where power politics and national aspirations are again in the ascendant.

VERA MICHELES DEAN

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Sworn to and subscribed before me this 14th day of September, 1951.

[SEAL]

CAROLYN E. MARTIN, Notary Public for the State of New York. Qualified in New York County, No. 31-2602600. (My commission expires March 30, 1953.)

## As Others See Us

Recent comment from responsible British publications has stressed American power and responsibility. *The Observer*, an independent Sunday paper with Conservative leanings, on August 12 translated the \$56 billion defense budget for 1951-52 into British pounds and found it roughly twice the total British national income and 18 times Britain's current defense budget.

"Probably within the next year, certainly within the next two years," the paper continued, "America's mobilized military power will begin to surpass Russia's as decisively as America's wealth and industrial capacity already surpasses Russia's. At the same time the towering preponderance of American power in the Western world is to become more and more obvious and will be reflected in the political and diplomatic behavior of the world. Whether we like it or not, whether she likes it or not, America is now rapidly becoming the center of the world, around which the great powers of yesterday will have to rearrange themselves together with the lesser powers and small nations."

*The Economist*, an independent

liberal weekly, stated in its issue of August 10: "For some reason many people in the West—notably in the U.S.A.—seem to regard rearmament and diplomacy as incompatible. . . . If the future strength of the American and allied forces were a carefully kept secret . . . it might be difficult to combine diplomacy and defense in relations with the Communist world. But the Soviet Union and its allies are confronted not with a secret conspiracy for their ruin, but with a public and free defensive alliance answerable to the United Nations. The allies can with clear conscience go on with their relations with Moscow; it will give them

equal, not preponderant, strength."

D. W. Brogan, a well-informed commentator on the American scene, explained the meaning of the West Point cribbing dismissals in the August 17 issue of the *Spectator*, commenting: "Coming after a series of scandals affecting public officials at all levels from a general, an ex-mayor of New York, several congressmen, officials of great federal corporations down to semipro basketball players in moderately distinguished academic institutions, the West Point scandal has really shaken the American people's confidence in the uniform excellence of the American way of life."



## FPA Bookshelf

### BOOKS ON WESTERN CULTURE

*Readings in Western Civilization*, selected and edited by George H. Knoles and Rixford K. Snyder. Chicago, J. B. Lippincott, 1951. \$6.

A selection of readings which illuminate some of the more significant aspects of the development of Western culture, from the Code of Hammurabi and the Bible to T. S. Eliot and the UN Charter. Many of the excerpts, all too brief will inspire the reader to return to the originals.

*The Impact of America on European Culture*, by Bertrand Russell, John Lehmann, Sean O'Faolain, J. E. Morpurgo, Martin Cooper, Perry Miller. Boston, Beacon Press, 1951. \$1.75.

These lively, highly personalized essays contain excellent material for discussion on

such provocative themes as the leveling of taste in art and culture, the role of the immigrant, the influence of Hollywood and of American slang.

*Americans in Glasshouses*, by Leslie James. New York, Henry Schuman, 1951. \$2.

An author who has chosen to cloak his identity by a pseudonym and his nationality by his publisher's assertion that he was born in mid-Atlantic has written a subtle satire on books about the United States by Europeans. He attributes America's "suffocating flow of luxuries" to the fact that from the start it was "colonized without planning." This may not be everyone's dish, but for those who are well-read in foreign, particularly British criticism of this country it can be delightful.

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#### A Foreign Policy Report

#### What Kind of Land Reform?

by Henry L. Roberts  
Columbia University

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